**Testimony of**
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**Before the**
**United States Senate Finance Committee**
**July 30, 2002**

Good morning Mr. Chairman, Senator Grassley and distinguished members of the Committee. I am Lynn McPheeters, Vice President & CFO for Caterpillar. Thank you for this opportunity to discuss the future of the Extraterritorial Income regime and its impact on the international competitiveness of U.S. based exporters like Caterpillar.

Let me briefly give you a few facts about Caterpillar. For more than 75 years, Caterpillar has been helping build the world's infrastructure and, in partnership with Cat dealers, is driving positive and sustainable change on every continent. With 2001 sales and revenues of nearly $21 billion, and 72,000 employees worldwide, Caterpillar is the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines. We also provide financing, insurance, and logistics services to a global customer base.

The models before you represent Caterpillar products manufactured in the U.S. that have helped build the world's infrastructure during our 75 + year history. I'll talk more about the significance of the models later in my comments.

Caterpillar has long maintained a strong commitment to free trade principles. And I applaud your leadership, Mr. Chairman -- and the strong support by members of the Committee -- to pass a TPA bill. However, I'm concerned that the loss of ETI – without a suitable replacement – could undermine the ability of U.S. exporters to compete in a global trade environment. The consequences of such actions could have a detrimental impact on capital and job growth in the U.S.

Repeal of the ETI provisions of the U.S. tax code would immediately impose a more than a **$5 billion tax increase** on the nation's exporters -- making it difficult for U.S. based exporters to remain competitive versus their foreign counterparts. This additional cost would be factored into investment analysis models most firms use when determining where to invest their shareholder capital. For exporters, an obvious alternative to investing in the U.S. is to produce closer to where the product is being sold. If returns from investments in the U.S. decline, U.S. based exporters will have a disincentive to invest here -- ultimately leading to a loss of high-dollar-value export-related jobs in the U.S.

Caterpillar's business model is somewhat unique because we are one of a handful of Fortune 100 companies that successfully compete globally from primarily a U.S. manufacturing base. Over 60 percent of our global manufacturing assets are in the U.S. To maintain this base, it is important to continue to competitively access international markets from here. Of the $21 billion in 2001 sales I mentioned earlier, over $5 billion was attributed to U.S. exports – directly supporting 16,500 high-dollar-value U.S. Caterpillar jobs and an additional 33,000 U.S. suppliers jobs. By 2010, we estimate that approximately 75% of our $30 billion in sales will be outside the United States. As exports increase, so do the number high-paying U.S. jobs needed to support them.

The models you have before you help emphasize the importance of Caterpillar's exports to our ability to create jobs in the U.S. – a trend we plan to continue. Each model has a tag that shows the percentage of U.S. production exported to countries around the world. With our continued growth, we have the potential to create a large number of additional export-related jobs for American workers in the future. However, our ability to increase export-related employment is primarily dependent on our ability to compete in the global marketplace. This includes ensuring that U.S. tax laws help us remain internationally competitive and incent U.S. exporters, like Cat, to make capital investments and create jobs in the U.S.

By way of background, in 1971 Congress passed the Domestic International Sales Corporations (DISC) legislation to help partially level the playing field for U.S. businesses. In the last thirty-one years global competition has increased substantially. As a result, the impact of U.S. tax rules – like ETI – on international competitiveness of U.S. based exporters is much more significant today. The fundamental policy considerations Congress used to develop the DISC, and later FSC and ETI, remain important, and we believe lawmakers recognize that. But now we have a series of challenges to our tax code by the European Union, requiring Congress to consider changes to our laws.

There is an important consideration to note as Congress considers alternatives to ETI. Even with ETI, many of our foreign competitors enjoy an advantage over U.S.-based multi-nationals because their governments use border adjustable tax regimes that do not tax income earned outside of their borders. A repeal of ETI -- without a suitable replacement -- would only increase the competitive disadvantage U.S. companies face internationally.

I believe the ideal outcome will consist of a WTO compliant solution that keeps U.S. exporters competitive and contains elements of both tax law changes and negotiations with the EU. We believe the U.S. has the responsibility to comply with its WTO obligations. But it's important for Congress and the Administration to take the time to develop the right overall tax policy to avoid making the creation of capital and jobs more attractive in foreign countries than in the U.S.

Mr. Chairman, on behalf of Caterpillar, I appreciate the opportunity to offer comments on this important issue. Thank you.